



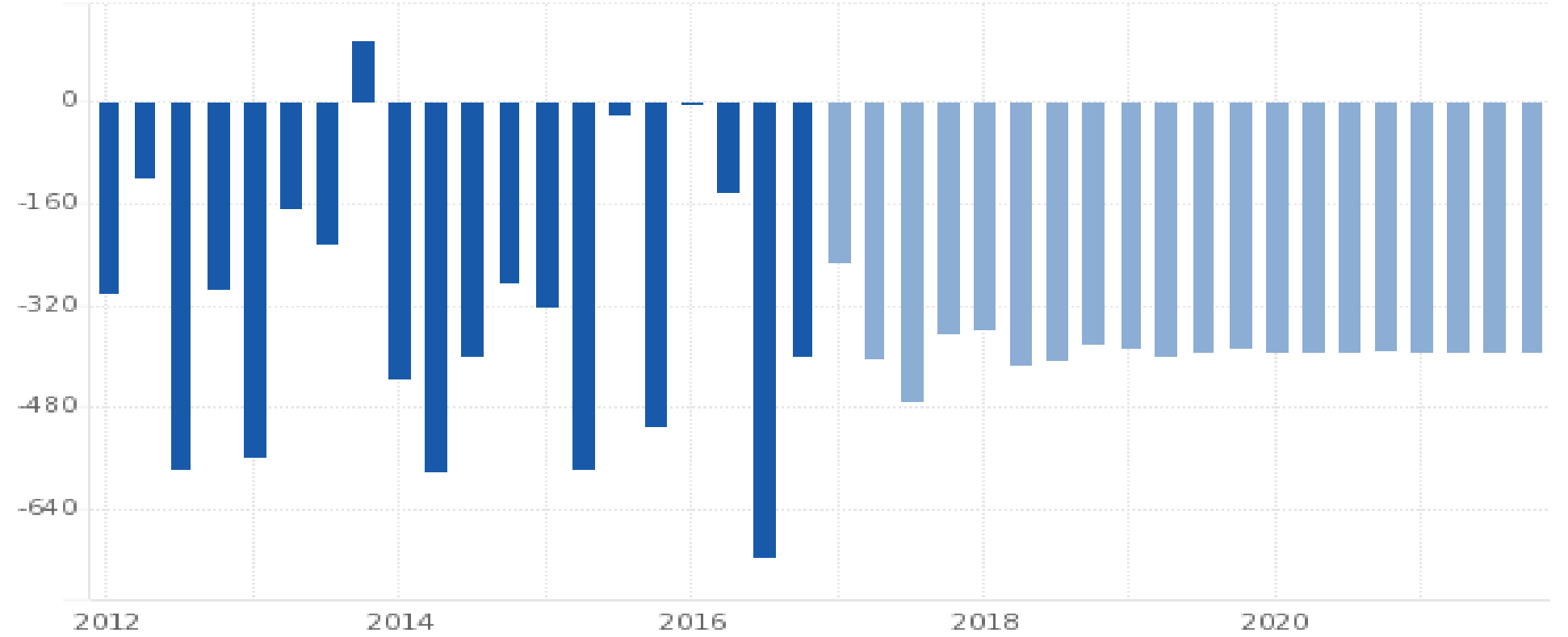
# China's Capital Outflow

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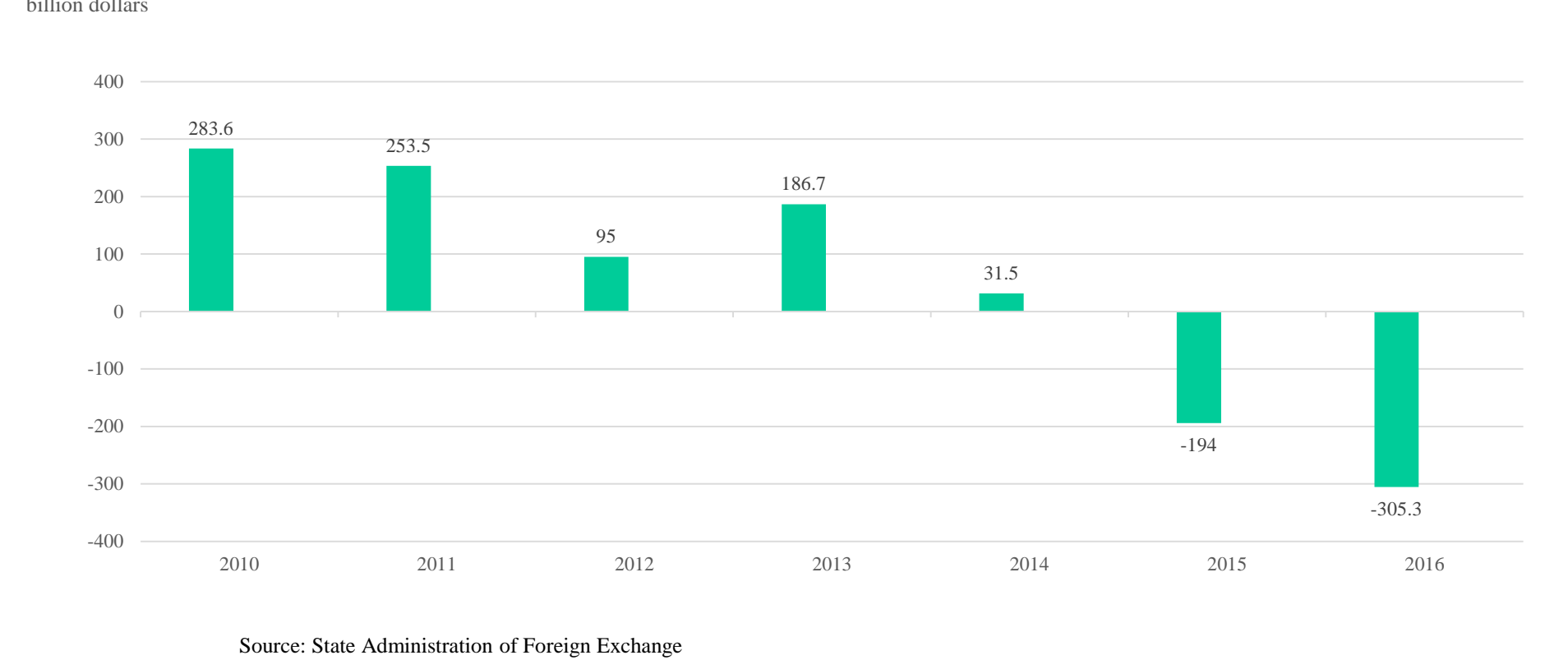
## Introduction

Because of weaker economic growth, capital has flown out of China in recent months in record amounts. According to the data, total of 1 trillion dollars has moved out of China by individuals and companies. Actually, the trade surplus has offset part of outflows, so real number has been higher than the published data. The graph and data below are from China's Economic Institution and Chinese government's official data.

China Capital Flows Forecast (Source: IECONOMICS)



Balance of Bank inflows and outflows



Source: State Administration of Foreign Exchange

## Why capital outflow?

There are several reasons about capital outflow.

- Investors are not optimistic about China's economy.
- Excessive capital (hot money) which invested Chinese currency has withdrawn from China.
- The U.S. dollar rallied and Chinese currency depreciated.

As a result, domestic individuals and companies have bought foreign currency to avoiding depreciation of the Chinese currency by various methods.

## How money moves out?

- Smurfing – relatives or friends help to carry out upper limited amount, 50,000 dollars
- Investing – investing oversea business, real estate and buying insurance
- Underground banking – some illegal capital outflow through underground banking operation
- Fake trade invoice – use under invoicing exports or fake trades for leaving part of profit in overseas bank accounts.

## Problems and the Chinese Government's Countermeasures

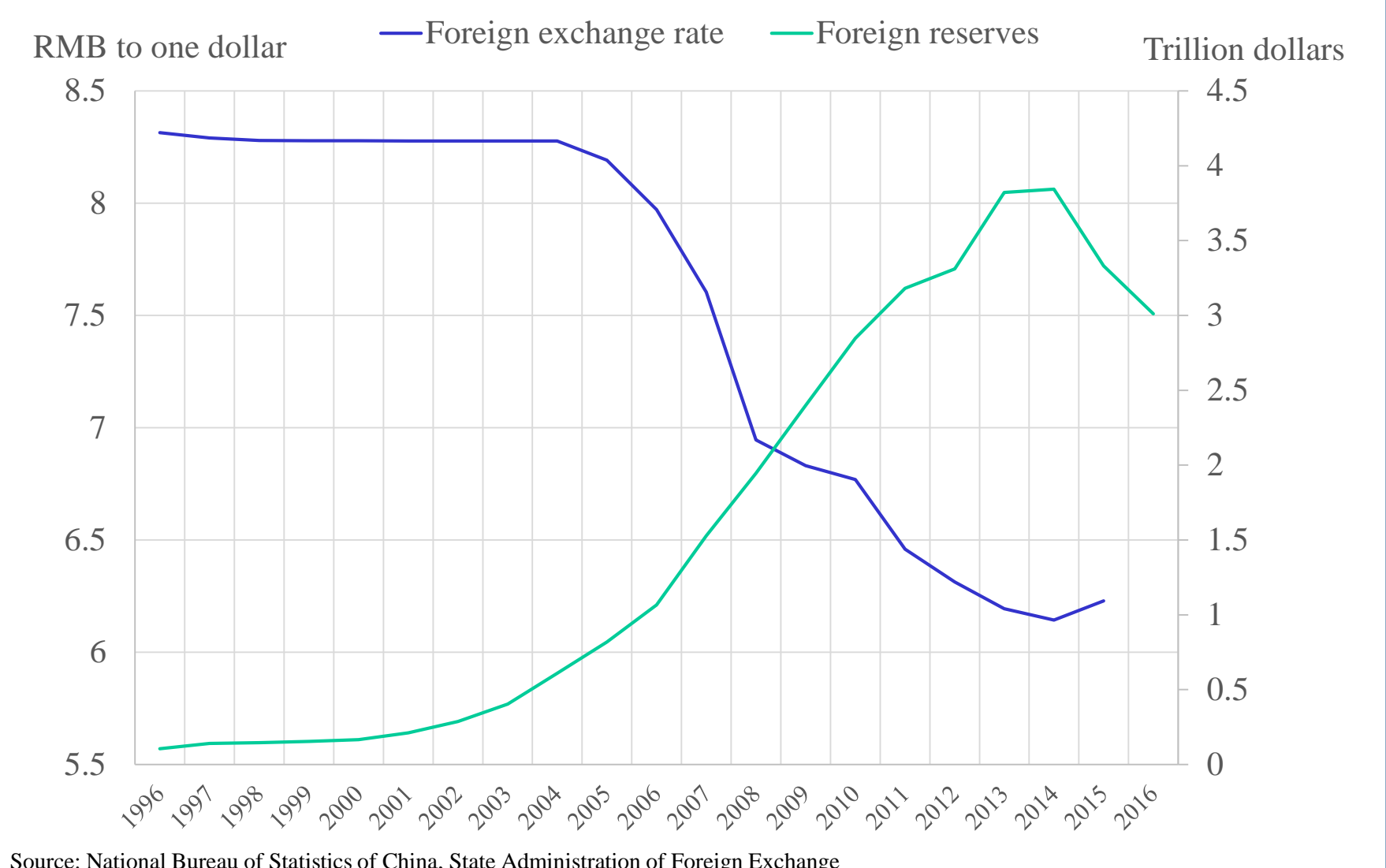
Whether via legal or illegal methods, capital outflow means that China's foreign reserves have been decreased dramatically, currency variations have been adjusted, and current account surplus has been offset. All these reasons cause critical situation to the economy and put further downward pressure on the Chinese currency.

For preventing depreciation of Chinese currency, Chinese government bought abundant Chinese currency and sold dollars from foreign reserves. Therefore, Chinese foreign reserves decreased to 3 trillion dollars in 2016. (see below graph)

## SOLUTIONS

The Chinese government is well-aware of the serious consequences to its capital outflow, so the authorities have implemented capital-control measures:

- Crackdown illegal capital outflow.
- Tighten formal channel.
- Limited overseas investments, acquisition, insurance purchasing.
- Monitor capital account transactions and require banks to report.
- Expand market access for foreign investors.



Source: National Bureau of Statistics of China, State Administration of Foreign Exchange

## Are the Countermeasures Effective? My Recommendations

- So far, the countermeasures stopped the excessive bleeding of capital. However, the longer term implications are still too early to assess.
- If China continues to use its reserves to stop capital outflow, eventually, it will run out of money.
- China needs to have a more domestic consumer-driven economy so that it doesn't rely on exports too much.
- Further expand market access for foreign investors.

Reference: [https://www.nytimes.com/interactive/2016/02/13/business/dealbook/china-exodus-flows-currency.html?\\_r=2](https://www.nytimes.com/interactive/2016/02/13/business/dealbook/china-exodus-flows-currency.html?_r=2); <https://www.bloomberg.com/news/articles/2017-01-13/what-s-causing-those-capital-outflows-from-china-quicktake-q-a>; <http://www.businessinsider.my/money-is-flowing-faster-out-of-china-2015-8/#UL6WOIGUK2bBAPmm.99>; <http://data.stats.gov.cn/easyquery.htm?cn=C01>; <https://www.bloomberg.com/news/articles/2016-10-19/china-busts-underground-banks-involving-over-1t-yuan-fin-news>; <http://www.kwm.com/en/hk/knowledge/insights/china-capital-flow-laws-reform-foreign-investors-restrictions-20170127>; <http://cn.nytimes.com/business/20160214/c14db-chinaexodus/>; <http://view.163.com/16/0613/05/BPD557J600015AAR.html>; [http://www.safe.gov.cn/wps/portal/sy/tjsj\\_hljzj\\_inquire](http://www.safe.gov.cn/wps/portal/sy/tjsj_hljzj_inquire); <https://ieconomics.com/china-capital-flows-forecast>